



BANK OF CANADA  
BANQUE DU CANADA

# Business Outlook Survey

Results of the Autumn 2014 Survey | Vol. 11.3 | 10 October 2014

*The autumn Business Outlook Survey shows that businesses, mainly exporters, see signs of modestly firmer demand. However, this has not led to a notable strengthening in investment intentions for the next 12 months.*

## Overview

- Responses to the autumn survey suggest that firms expect a modest improvement in business activity over the next 12 months, supported by more tangible signs of improving U.S. demand. Businesses are generally more optimistic about foreign demand than about domestic demand.
- While recent economic developments have led some firms to feel somewhat less uncertain about the outlook for their businesses, in many cases, investment plans continue to be focused primarily on upgrading and replacing existing capital. More firms plan to increase employment over the next 12 months to meet additional demand.
- The indicator of capacity pressures moved up, although reports of labour shortages that are restricting the ability of firms to meet demand remain low. Firms expect input and output prices to rise at a somewhat greater pace than over the past 12 months. Inflation expectations edged up but continue to be concentrated in the Bank's inflation-control range.
- The balance of opinion on credit conditions indicates an easing over the past three months.

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The *Business Outlook Survey* summarizes interviews conducted by the Bank's regional offices with the senior management of about 100 firms selected in accordance with the composition of Canada's gross domestic product. The autumn 2014 survey was conducted from 25 August to 18 September 2014. The balance of opinion can vary between +100 and -100. Percentages may not add to 100 because of rounding. Additional information on the survey and its content is available on the Bank of Canada's website. The survey results summarize opinions expressed by the respondents and do not necessarily reflect the views of the Bank of Canada.

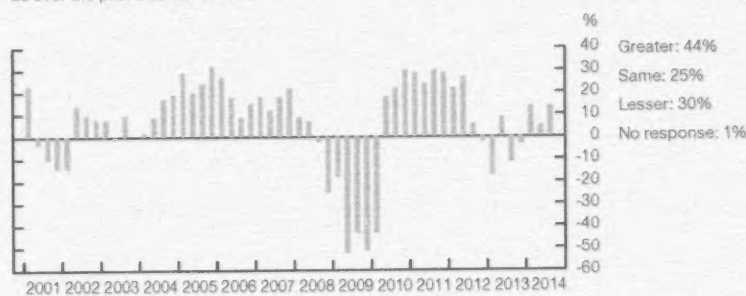
## Business Activity

The balance of opinion on past sales growth moved back up in the autumn survey, suggesting an improvement in the pace of sales activity over the past 12 months (Chart 1). Many firms characterized this improvement, which follows a weak sales environment over recent years, as modest. The balance of opinion on future sales growth also rose, indicating that firms expect sales to increase at a greater rate over the next 12 months (Chart 2).

Indicators of future sales momentum continue to improve compared with a year ago, largely reflecting increased orders or sales inquiries from international customers. Firms' outlook for the U.S. economy is positive, and some indicate that strengthening U.S. demand has already had an impact on their sales. A number of firms report pursuing strategies to benefit from improving foreign demand. These include refocusing sales or product-development efforts and, in some cases, expanding operations outside Canada to support exports or to produce closer to sources of demand. Citing modestly better recent indicators, businesses selling primarily to domestic markets generally expect a firming in sales after a period of fairly weak growth.

**Chart 1: Businesses reported some improvement in sales growth over the past 12 months...**  
Balance of opinion<sup>a</sup>

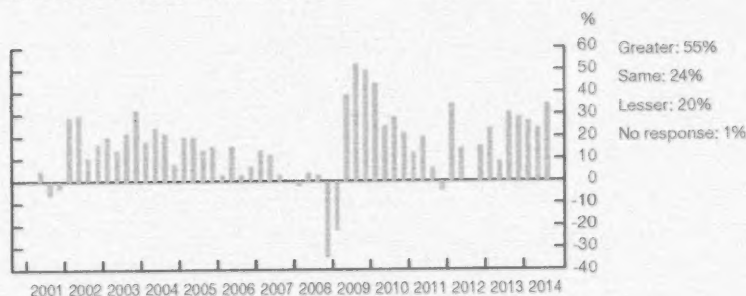
Over the past 12 months, did your firm's sales volume increase at a greater, lesser or the same rate as over the previous 12 months?



a. Percentage of firms reporting faster growth minus the percentage reporting slower growth

**Chart 2: ...and expect further improvement over the next 12 months**  
Balance of opinion<sup>a</sup>

Over the next 12 months, is your firm's sales volume expected to increase at a greater, lesser or the same rate as over the past 12 months?



a. Percentage of firms expecting faster growth minus the percentage expecting slower growth

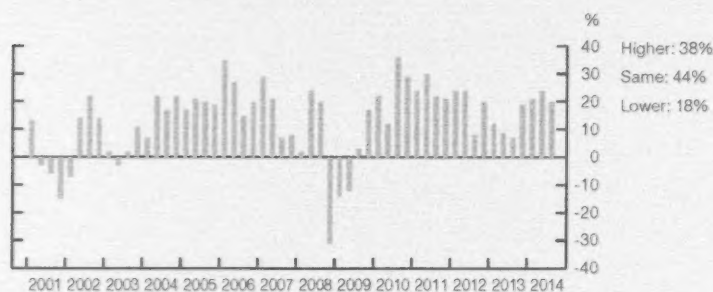
The balance of opinion on investment in machinery and equipment remains positive, pointing to a rise in spending over the next 12 months (Chart 3). Relative to other firms, plans to increase investment spending are somewhat more widespread among those with international sales and those headquartered in Western Canada. Yet, for many businesses, the primary motive for investment continues to be upgrading and replacing existing capital.

The balance of opinion on employment moved back up to levels seen earlier this year (Chart 4). The rise in hiring intentions in the autumn survey was widespread across all regions and sectors.

### Chart 3: Investment intentions remain positive

Balance of opinion<sup>a</sup>

Over the next 12 months, is your firm's investment spending on M&E expected to be higher, lower or the same as over the past 12 months?

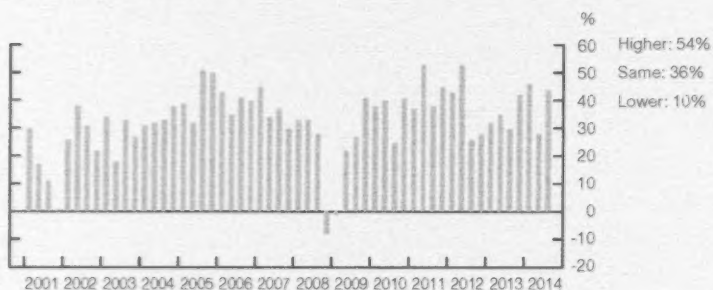


a. Percentage of firms expecting higher investment minus the percentage expecting lower investment

### Chart 4: Hiring intentions increased in all regions and sectors

Balance of opinion<sup>a</sup>

Over the next 12 months, is your firm's level of employment expected to be higher, lower or the same as over the past 12 months?



a. Percentage of firms expecting higher levels of employment minus the percentage expecting lower levels

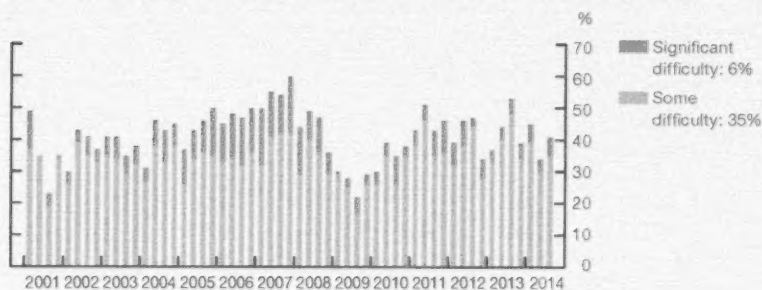
## Pressures on Production Capacity

Capacity pressures moved up in the autumn survey, following an easing in the summer survey (Chart 5), as firms report using existing capacity somewhat more intensively to meet gradually improving demand. Export-oriented firms were more likely to anticipate some difficulties in meeting an unexpected increase in demand than firms selling only to domestic markets. The number of firms anticipating significant difficulty remains low.

The percentage of firms reporting that labour shortages are restricting their ability to meet demand is little changed in the autumn survey and remains low (Chart 6). Some firms noted that, while not yet impeding their ability to meet demand, finding workers has become somewhat more challenging than it was 12 months ago.

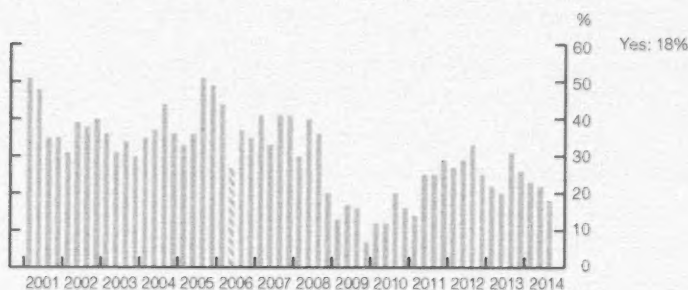
**Chart 5: Slightly more firms anticipate difficulty meeting an unexpected increase in demand...**

How would you rate the current ability of your firm to meet an unexpected increase in demand?



**Chart 6: ... although few firms face labour shortages that restrict their ability to meet demand**

Does your firm face any shortages of labour that restrict your ability to meet demand?



/// The summer 2006 results are not strictly comparable with those of the other surveys, owing to a difference in the interview process for that survey.



## Prices and Inflation

The balance of opinion on input price inflation turned modestly positive in the autumn survey (Chart 7), suggesting that firms expect input prices to increase at a somewhat greater pace over the next 12 months. Views regarding the impact of the depreciation of the Canadian dollar on input costs are largely balanced; some firms consider that the effect has already taken place, while others are still anticipating some impact on the prices of imported inputs over the next 12 months.

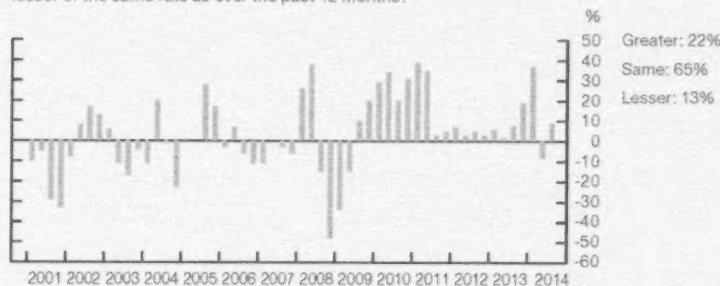
The balance on output prices is also modestly positive and little changed from the summer survey (Chart 8). With signals that demand may be firming, some businesses anticipate that they will be able to at least partially pass through increases in input costs; however, firms continue to see intense competition limiting the extent of increases in output prices.

Inflation expectations edged up in the autumn survey, but a majority of firms still expect total CPI inflation to be in the lower half of the Bank's 1 to 3 per cent inflation-control range over the next two years (Chart 9). Some firms cited the improved outlook for the U.S. economy as a factor driving their slightly higher inflation expectations, while others expect still-temper domestic demand to keep inflation below 2 per cent. Almost all businesses anticipate that inflation will remain in the Bank's inflation-control range.

**Chart 7: Firms expect input prices to increase at a slightly greater pace over the next 12 months**

Balance of opinion<sup>a</sup>

Over the next 12 months, are prices of products/services purchased expected to increase at a greater, lesser or the same rate as over the past 12 months?

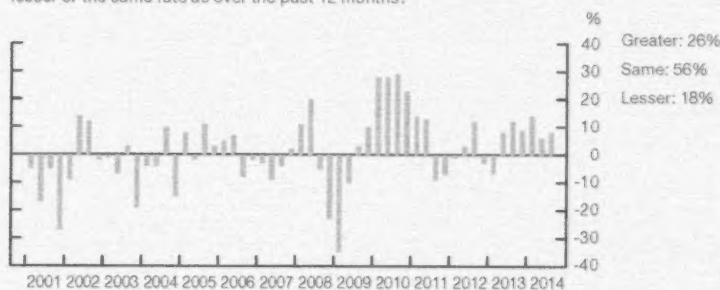


a. Percentage of firms expecting greater price increases minus the percentage expecting lesser price increases

**Chart 8: Anticipating firming demand, some businesses hope to be able to partially pass through increases in input costs**

Balance of opinion<sup>a</sup>

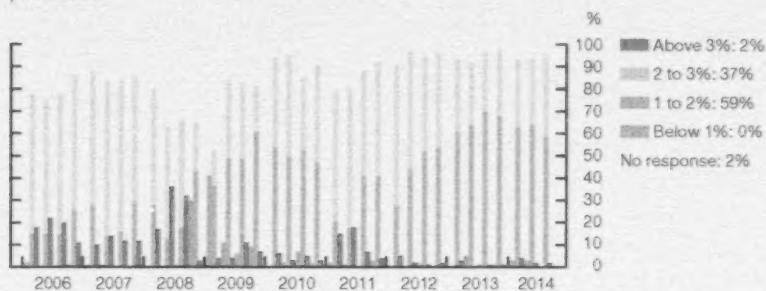
Over the next 12 months, are prices of products/services sold expected to increase at a greater, lesser or the same rate as over the past 12 months?



a. Percentage of firms expecting greater price increases minus the percentage expecting lesser price increases

**Chart 9: Inflation expectations edged up, but remain concentrated in the Bank's inflation-control range**

Over the next two years, what do you expect the annual rate of inflation to be, based on the consumer price index?

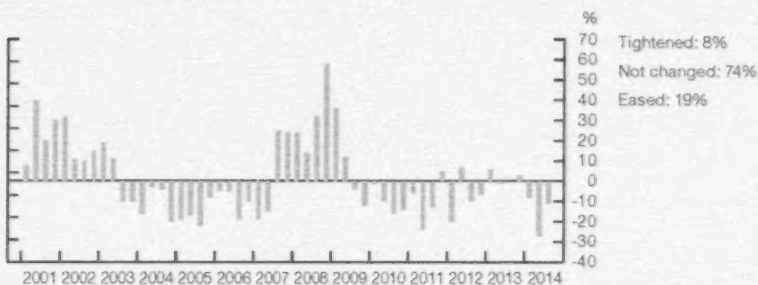
**Credit Conditions**

The negative balance of opinion on credit conditions indicates an easing over the past three months (Chart 10). As in recent surveys, a majority of firms describe credit as easy or relatively easy to obtain.

**Chart 10: Firms report an easing in credit conditions over the past three months**

Balance of opinion<sup>a</sup>

Over the past three months, how have the terms and conditions for obtaining financing changed (compared with the previous three months)?



a. Percentage of firms reporting tightened minus the percentage reporting eased. For this question, the balance of opinion excludes firms that responded "not applicable."

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